



# LifeTimes

*Special Legislative Issue*

NEWSLETTER FOR RETIRED IPERS MEMBERS

Iowa Public Employees' Retirement System

Summer 2008

## New state law adjusts IPERS plan Retirement benefits intact

The Iowa Legislature made several changes to the IPERS plan during the 2008 legislative session, but did not change core retirement benefits.

Governor Culver signed Senate File (SF) 2424 into law in May. The changes become effective on different dates as noted inside.

The bill did not change eligibility for benefits or the formula used to figure benefit amounts, but did change the following:

- Directs IPERS to review contribution rates each year and adjust the rates as necessary based on an actuarial valuation. Rates can change by no more than 0.5 percentage point a year for each membership class.

- Removes bonuses and allowances from the compensation classified as IPERS-covered wages. IPERS-covered wages determine the amount contributed to IPERS and help calculate benefits.
- Moves county jailers, emergency medical service providers, county attorney investigators, and National Guard installation security officers from the regular membership class to the protection occupation class.
- Adds ways for vested members and retirees to purchase service credits.
- Clarifies that recipients of regular disability benefits can continue receiving disability benefits only if they continue to meet eligibility requirements for having a permanent disability.
- Allows beneficiaries who are not spouses, as well as spouses, to roll over their death benefits to traditional and Roth IRAs.

**Read more about SF2424 changes inside.**

SF2424 also removes out-of-date language, makes technical corrections, and changes requirements for employers. This summary does not address these changes, which do not affect your member rights. You can see the complete bill from the link on IPERS' Web site, [www.ipers.org](http://www.ipers.org). Select "Legislative News" in the Newsroom. You also can link to IPERS laws and administrative rules adopted to carry out state and federal laws from the IPERS Central section of the Web site.

### Who does what?

The **Iowa Legislature & Governor** determine, by law, who participates in IPERS and what benefits the IPERS plan will provide.

The **Benefits Advisory Committee** represents employers and members in advising IPERS and the legislature on IPERS benefits.

The **Investment Board**, trustee of the IPERS Trust Fund, monitors proposals that may help or harm the long-term financial stability of the fund and the board's ability to act in the best interests of IPERS members.

**IPERS' Administration** advises the legislature on the fiscal and policy implications of proposed law changes and implements laws that are passed.

### 2008 BENEFITS CALENDAR

MONTH	CHECKS MAILED	DIRECT DEPOSIT
July	30	31
August	28	29
September	29	30
October	30	31
November	25	26
December	30	31

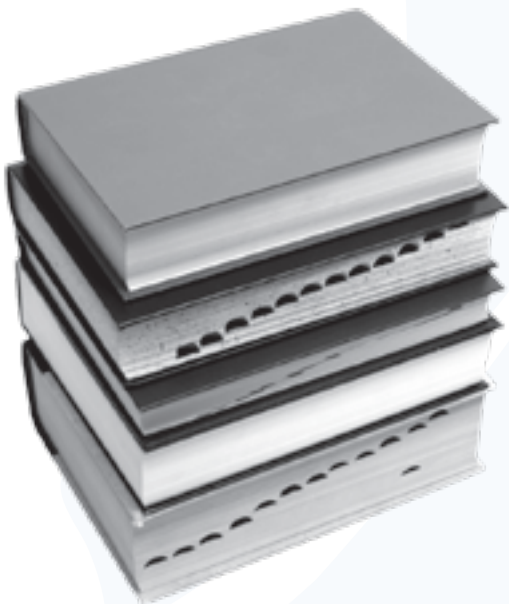
## Summary of 2008 Law Changes

### Definition of IPERS-covered wages

SF2424 changes the definition of IPERS-covered wages. The definition is important because contributions and benefit calculations are based on IPERS-covered wages. The change affects contributions paid by current public employees and may affect the final average salary used to calculate their future retirement benefits. However, the change does not affect the benefits that you are already receiving.

The new law removes bonuses and allowances from the definition of IPERS-covered wages.

This change does not affect current pensions.



#### Not included in IPERS-covered wages:

##### 1. BONUSES, WHETHER PAID AS A ONE-TIME LUMP SUM OR IN INSTALLMENTS.

Bonuses do not reflect a normal progression of wages that typically occurs throughout a career. Successfully funding a retirement plan requires that employees and their employers contribute a percentage of wages that increase incrementally throughout employees' careers. When bonuses inflate the final average salary used to calculate pensions, the pensions are out of proportion to the contributions paid while those employees were working. Even when members do not seek bonuses just to inflate their pensions, bonuses received in the few years before retirement can result in pensions that are higher than they should be for the contributions paid throughout a career.

Bonuses include recruitment and retention incentives, and awards for performance, but do not include overtime. IPERS will work with employers to make sure that employers correctly report special appropriations meant to improve salaries rather than give bonuses.

##### 2. ALLOWANCES, EXCEPT LEGISLATIVE PAY.

Few allowances were part of IPERS-covered wages in the past. However, the language in the law had caused confusion and led to errors when employers reported wages to IPERS. The law now states more clearly that covered wages do not include allowances.

*Effective July 1, 2008*

*Iowa Code Section Amended: 97B.1A(26)*

### Thanks!

Many employer, employee, and retiree groups, and many individuals worked to support the changes recommended by the Benefits Advisory Committee that were included in SF2424. Senator Michael Connolly, a member of the IPERS Investment Board, managed the bill in the Senate. Representative Pam Jochum, a former member of the IPERS Investment Board, managed the bill in the House.

## Summary of 2008 Law Changes

### Setting contribution rates

SF2424 directs IPERS to adjust contribution rates for members who are currently working in the regular membership class (about 96 percent of all working members) based on an annual actuarial valuation, which is a snapshot of IPERS' finances. The contribution rate is the percentage of wages employees and their employers pay to IPERS.

In the past, only the legislature could adjust contribution rates for regular members. The legislature has set rates for regular members through June 2011, so this change is effective July 1, 2011.

IPERS already sets rates for Special Service members, who make up IPERS' other two membership classes (sheriffs/deputies and

protection occupations). IPERS knows from experience that small and timely adjustments to contribution rates keep benefits fully funded and contribution rates stable over time. Although the rates have varied from year to year, current contribution rates for Special Service members are about equal to their rates ten years ago.

The contribution rate for each membership class can increase or decrease no more than 0.5 percentage point each year. IPERS will announce the rates at least six months before the rates are effective.

*Effective July 1, 2011*

*Iowa Code Section Amended: 97B.11  
and related sections*

IPERS is prefunded, which means that while members are working they contribute to IPERS for their own future retirements. Contributions from employees and their employers, plus investment income, must be enough to cover the costs of future benefits that IPERS promises to pay.

### Why IPERS calls you a member

You are a part of a "member-owned" trust fund and you have rights to your IPERS benefits. You became a member and gained membership rights when you started contributing to IPERS. IPERS deposits contributions in the

trust fund, which was established by Iowa law, and invests the contributions to grow the fund. The law says the trust fund can be used only to pay benefits promised to members plus reasonable costs to operate the plan.

As a retiree, you keep your membership rights and remain a member even after you begin receiving benefits.

**Your IPERS membership continues after retirement.**

## Summary of 2008 Law Changes

### Reclassifying regular members as protection occupation members

Four groups of employees will move from IPERS' regular membership class to the protection occupation membership class:

- County jailers and detention officers working as jailers.
- Emergency medical service providers.
- County attorney investigators.
- National Guard installation security officers.



Protection occupation members work

to protect people and property, and their jobs are hazardous and physically demanding. Because it takes strength, speed, stamina, and agility to do these jobs, retirement is necessary at an earlier age and with less service than it is for regular members.

IPERS service already earned will continue to count as regular service when calculating retirement benefits. Service earned after July 1, 2008, will count as protection occupation service.

The protection occupation class is one of two groups of Special Service members. Special Service membership is reserved for employees working in jobs that call for earlier retirements. These members earn benefits faster than members in the regular class and become eligible for retirement benefits at a younger age. They also have higher disability and death benefits. Since benefits are higher, contribution rates are also higher than those for members in the regular class.

The current protection occupation class includes correctional officers, police and firefighters in Iowa's towns and smaller cities, airport firefighters, airport safety and security officers, conservation peace officers, Department of Transportation peace officers, and fire inspectors. The second group of Special Service members consists only of county sheriffs and deputy sheriffs.

This change affects only future retirees and will not affect current pensions.

Adding people to the group can affect contribution rates for those already in the group. This is because, similar to an insurance pool, everyone in the pool shares the costs. Characteristics of the members in the pool affect the cost of benefits. For example, as life spans increase, retirement benefit costs increase because people will receive benefits longer. Likewise, people who join the pool at an older age have a cost impact because they have fewer years to contribute before drawing retirement benefits than younger people just starting their careers.

*Effective July 1, 2008*

*Iowa Code Section Amended: 97B.49B(1)*

## Summary of 2008 Law Changes

### Eligibility for regular disability benefits

This revision clarifies that IPERS will continue to pay regular disability benefits only when recipients have a permanent disability and continue to meet the eligibility guidelines they met initially.

Although IPERS is not aware that any member has received undue benefits, it was not clear what would happen if someone lost eligibility for social security disability benefits or railroad retirement disability benefits. IPERS members must receive those benefits to be eligible for IPERS regular disability benefits.

IPERS members receiving Special Service disability benefits (sheriffs, deputies, police officers, firefighters, correctional officers, and other public safety personnel) already must prove continued eligibility.

Anyone no longer qualified for disability benefits may later requalify for disability benefits. Members may also become eligible for retirement benefits under the normal guidelines.

*Effective July 1, 2009*

*Iowa Code Section Amended: 97B.50(2)*

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#### **Do the changes reported in this newsletter affect whether or not IPERS pays the November dividend and Favorable Experience Dividend?**

Many of the changes to the IPERS plan in Senate File 2424 affect only contributing members who have not yet retired. However, any change that helps make IPERS a stronger plan will benefit all members in the end. Setting contributions at the right level helps IPERS' overall funding, which affects IPERS' ability to pay the dividends.

By law, IPERS must pay the November dividend for those who retired before July 1, 1990, but an increase is not guaranteed. The Favorable Experience Dividend payment for post-June 1990 retirees is not guaranteed, but IPERS has enough money to continue paying it for several years.



## Summary of 2008 Law Changes

### Death benefits

#### AWARDING MILITARY SERVICE CREDITS

Under current law, members leaving IPERS-covered employment for active military duty receive free service credits for the time they are gone *only if* they return to a job with IPERS coverage. The new law creates a way to credit the accounts of members who die because of their military service. Since service credits are part of the formula used to figure death benefits, this change could increase payments to beneficiaries.

Under the new law, IPERS can award free service credit for active duty when a member:

- Serves in a combat zone or hazardous duty area,
- Sustains a service-related injury or disease that prevents the member from returning to IPERS-covered employment, and
- Dies of a service-related injury or disease within two years after suffering the injury or disease.

*Effective July 1, 2008*

*Iowa Code Section Amended: 97B.1A(20)*

#### PAYING DEATH BENEFITS TO MINORS

This change allows IPERS to pay up to \$25,000 in death benefits to an adult custodian of a minor named as the beneficiary without court oversight. This raises IPERS' \$10,000 limit to the limit set in Iowa Code Chapter 565B, Transfers to Minors.

Lawyers helping families suggested the change because legal fees associated with court intervention were disproportionate to the value of the death benefits, resulting in a financial hardship.

*Effective July 1, 2008*

*Iowa Code Section Amended: 97B.34A*

#### TRANSFERRING DEATH BENEFITS TO OTHER RETIREMENT ACCOUNTS

These changes are consistent with changes made by the Internal Revenue Service. IPERS can now transfer (roll over) a deceased member's account to a traditional or Roth IRA selected by a beneficiary who is not the deceased member's spouse. In the past, only a spouse named as the beneficiary of a deceased IPERS member had rollover rights.

*Effective: Traditional IRA retroactive to January 1, 2007*

*Roth IRA retroactive to January 1, 2008*

*Iowa Code Section Amended: 97B.53B*

#### DEATH BENEFITS AFTER RETIREMENT

Although all IPERS members have death benefits before retirement, retirees decide whether they will have death benefits after retirement.

When you applied for IPERS benefits, you chose from up to six benefit options. Your choice determines the death benefits available to your beneficiaries, and affects how much you receive each month. In general, as death benefits increase, the monthly pension decreases.

Retirees who selected Option 3 receive the highest monthly pension but have no death benefits. Other options have decreased monthly pensions but allow for various death benefits. Options 4 and 6, which allow for lifetime monthly payments to a beneficiary, lower the pension amount the most.

## Summary of 2008 Law Changes

### Service purchases

The new law adds ways for members to buy service credits. Service is important because it helps determine your benefit amount at retirement. As a retiree, you may also buy service credit, which will increase your benefits. Service credits also affect disability and death benefits.

#### NEW WAYS TO PURCHASE SERVICE

**1.** Members who have earned at least five years of IPERS service may buy up to five years of service credit that is not tied to specific employment (also called buy-in of air time) at the actuarial cost.

**2.** Vested members who have a mixture of regular service and Special Service may convert regular service credits to Special Service credits by paying the added actuarial cost (also called a buy-up) of the higher Special Service benefits.

*Effective July 1, 2008*  
Iowa Code Section Amended:  
97B.80C(1) and (2)

IPERS members who have already retired may buy service and have their pensions adjusted.

#### CREDIT APPLIED WHEN BUYING BACK PAST SERVICE

When members quit working for an IPERS-covered employer and withdraw their contributions, they give up IPERS membership rights for that period of employment, including all service credits earned. If they later return to a job covered by IPERS, they can buy back that service at the actuarial cost.

The new law grants a credit that will reduce the buy-back cost to members who:

- Received a refund from IPERS before July 1, 1998,
- Were vested in IPERS when they received the refund, and
- Returned to work before July 1, 1998, and worked:
  - Full-time, and
  - In a job with mandatory IPERS coverage.

If you are interested in buying back service and think you may be eligible for the cost-reduction credit, please call. The credit will be based on the membership class you were in, the number of years covered by the refund, and how much your employer contributed to IPERS during the time you worked.

*Effective January 1, 2009*  
Iowa Code Section Amended:  
97B.80C(3)

### About purchasing service

When you purchase service, you pay money into the IPERS Trust Fund to buy additional service credits that IPERS uses to calculate your retirement benefits. The added service credits can increase the amount of your benefits. IPERS does not profit from a service purchase.

#### Actuarial cost

IPERS' actuary determines the cost of your service purchase by calculating the value of the extra benefits over your lifetime (the actuarial cost).

#### Applying

You must complete an *Application for Service Purchase* so the actuary can develop a cost quote. Filing an application does not obligate you to purchase.

**Only you can decide if the added benefits you will receive from a service purchase outweigh the cost of purchasing the service.**

#### YOUR IPERS BENEFIT EQUALS:

Multiplier (Based on Years of Service)	×	Salary (Average of Highest 3 Years)
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For regular IPERS members, the multiplier increases 2 percent each year you work in a job covered by IPERS, up to 30 years, and 1 percent for years 31–35. The maximum multiplier for regular members is 65 percent.

The multiplier for Special Service members (sheriffs, deputies, correctional officers, police, firefighters, and other public safety personnel) increases about 2.7272 percent each year, up to 22 years, and 1.5 percent each year for years 23–30. The maximum multiplier is 72 percent.

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**IPERS**

Iowa Public Employees' Retirement System

NEWSLETTER FOR RETIRED IPERS MEMBERS

## *Special Legislative Issue: Summary of IPERS changes inside*

### *You gotta love the Iowa State Fair*



Photo courtesy of the Iowa State Fair

"U gotta love it" when you can find corndogs, funnel cakes, the butter cow, and information about your own retirement benefits in one place.

The 2008 Iowa State Fair opens August 7 with the theme, "U gotta love it." IPERS will be there for the entire fair, which runs through August 17. Look for our booth

in the northeast quadrant of the Varied Industries Building.

Each day during last year's fair, an average of 181 people came to the IPERS booth to ask questions and pick up benefit information. The two staff members in the booth met with about 15 people every hour!